

Message Text

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C O N F I D E N T I A L MANILA 15869

E.O. 11652: GDS

TAGS: MARR, RP

SUBJECT: FY 1976 AND FY 1977 SECURITY ASSISTANCE

REF: (A) STATE 258224

(B) MANILA A-309, NOV. 4, 1975

1. THE GOP IS CURRENTLY EXPERIENCING A SIGNIFICANT BALANCE OF PAYMENTS DEFICIT. THIS PROBLEM MAY CONTINUE FOR SOME TIME, AND ANY ADDITIONAL DRAIN ON FOREIGN EXCHANGE WILL NOT BE HELPFUL. HOWEVER, FMS CREDIT IN THE SCALE PROPOSED SHOULD NOT RPT NOT CREATE EXCESSIVE ADDITIONAL PRESSURE ON INTERNATIONAL EXCHANGE RESOURCES. FUTURE BUDGETS SHOULD BE ABLE TO ABSORB SERVICE ON THE PROPOSED CREDIT WITHOUT UNDESIRABLE CONSEQUENCES. PROBLEMS WHICH COULD BE CREATED BY MUCH LARGER AMOUNTS OF CREDIT WERE DISCUSSED IN REF.B.

2. WITH REGARD TO SPECIFIC QUESTIONS POSED IN PARA. 5 OF REF. A CONCERNING RECOMMENDED FY 76 FMS CREDIT LEVELS, FOLLOWING INFORMATION IS PROVIDED (KEYED TO LETTERED SUBPARAGRAPHS IN PARA. 5 OF REF. A):

A. THE PHILIPPINE GOVERNMENT WILL "ACCEPT AND CONSUM-
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MATE" THE \$17.4 MILLION FMS CREDIT PROPOSED.

B. MAJOR ITEMS WHICH GOP WILL WANT TO PROCURE ARE LISTED IN PRIORITY ORDER:

1) C-130H AIRCRAFT REMAIN THE TOP GOP PRIORITY FOR FMSCR FUNDING. AFP WOULD LIKE TO BUILD ITS C-130 FLEET TO 16 BY FY82. AFP BUDGETARY CONSTRAINTS HAVE CAUSED AFP TO RE-EVALUATE CURRENT PLANS TO PURCHASE TWO C-130S THIS YEAR. PROBLEM IS THAT ONLY \$7 MILLION IS AVAILABLE FROM FY75 FMSCR (COLT M-16 PLANT TOOK OTHER \$7 MILLION), WHILE TWO-AIRCRAFT PURCHASE PACKAGE, WITH SPARES AND SUPPORT, IS OVER \$18 MILLION. AFP IS HARD PRESSED TO PROVIDE FROM CURRENT BUDGET ADDITIONAL \$11 PLUS MILLION REQUIRED. IF ONLY ONE C-130 IS PURCHASED THIS YEAR, AS NOW SEEMS LIKELY, AFP IS EXPECTED TO PUSH HARD FOR PURCHASE OF TWO MORE C-130S WITH FY76 FMSCR. ALL OF 17.4 MILLION DOLLARS IN FY76 CREDIT WOULD LIKELY BE CONSUMED BY THIS PURCHASE.

2) NEXT PRIORITY AFTER C-130S IS NAVY SYNCHROLIFT DRYDOCK. HOWEVER, AFP IS EXPECTED TO BE SO PREOCCUPIED WITH C-130S IN FY76 IT WILL WAIT UNTIL FY77 TO SEEK THIS PURCHASE.

3) ALSO OF INTEREST TO AFP, IS ACQUISITION OF F-5E AIRCRAFT. WE ANTICIPATE THAT AFP MAY LOOK TO FMSCR PURCHASE OF UP TO 8 AIRCRAFT IN FY77, IF CREDIT IS AVAILABLE.

C) PROVIDING THE GOP WITH \$17.4 MILLION FMSCR IN FY76 WOULD SUPPORT THE US-APPROVED AFP OBJECTIVE OF ACQUIRING A MEDIUM AIRLIFT SQUADRON.

D AND E - THE FMS CREDIT PROGRAM COMPLEMENTS THE GRANT MATERIEL AND GRANT TRAINING PROGRAMS.

F. US MILITARY ASSISTANCE IN THE PHILIPPINES PLAYS AN ESSENTIAL ROLE IN PRESERVING ACCESS TO THE BASES WE MAINTAIN HERE. GRANT AID IS THE MOST IMPORTANT ELEMENT IN THE US MILITARY ASSISTANCE PACKAGE, BUT FMS CREDIT PROVIDES A USEFUL SUPPLEMENT.

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G. THE CREDIT SALE WILL NOT SIGNIFICANTLY AFFECT REGIONAL ARMS BALANCE OR CONTRIBUTE TO AN ARMS RACE.

H. THERE IS A DEMONSTRABLE NEED FOR MILITARY CREDIT ASSISTANCE TO FILL THE GAP BETWEEN WHAT IS PROVIDED BY US GRANT AID AND WHAT IS A REALISTIC AND DESIRED EQUIPMENT LEVEL FOR THE AFP. THE PHILIPPINE AIR FORCE HAS AN AGING AIRLIFT CAPABILITY (C-47/C-123 AIRCRAFT) WHICH IS

INADEQUATE TO SUPPORT THE OPERATIONS OF THE AFP. ACQUISITION OF C-130 H AIRCRAFT WILL SIGNIFICANTLY IMPROVE AIRLIFT CAPABILITIES OF THE AFP.

I. VERY LARGE AMOUNTS OF FMSCR, MUCH IN EXCESS OF THE PROPOSED CREDIT, MAY CREATE AN EXCESSIVE REPAYMENT BURDEN ON FUTURE YEAR BUDGETS. THIS PROBLEM WAS DISCUSSED IN REF B.

J. THERE ARE NO KNOWN ARMS PURCHASES THAT THE COUNTRY IS MAKING FOR CASH OR CREDIT FROM US OR THIRD COUNTRIES WHICH ARE RELEVANT TO EXTENSION OF PROPOSED FY 1976 FMS CREDIT.
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